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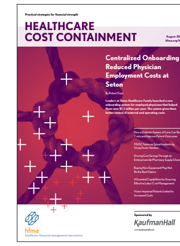

+ labor costs +

4 Essential Capabilities For Ensuring Effective Labor Cost Management

By Jay Spence

Delivering effective productivity reporting and labor analytics requires a long-range view and a focus on continuous improvement.

Hospitals and health systems nationwide are facing mounting pressures to reduce costs and improve care quality. Labor costs are a critical piece in this puzzle as the U.S. healthcare system moves toward value-based care delivery.

Labor costs can represent more than half of a hospital's or health system's operating expense budget and 80-90 percent of an organization's variable expenses, making it the area of greatest opportunity for managing costs.

Effective labor cost management requires strategies that are reasonable, achievable, and sustainable (see sidebar on next page). First and foremost, healthcare leaders need to ensure that they are analyzing the right data in the right ways using the right tools.

This article discusses key capabilities for labor productivity monitoring, which is a core function of labor cost management initiatives.

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Reasonable, Achievable, and Sustainable

Initiatives to address labor productivity monitoring or other aspects of labor cost management should meet three criteria to be successful:

Reasonable. A comprehensive approach is important in identifying the potential dollar amounts associated with specific cost management opportunities. There are multiple aspects to any opportunity. For example, comparative views of internal productivity trends and external benchmarks can help to identify and quantify any outliers at a hospital or department level. Such an approach helps to ensure that proposed strategies are reasonable within the context of the larger organization.

Achievable. Assessing up front how quickly changes can be phased in is a crucial part of the planning process. This involves answering questions such as whether staffing patterns and related savings opportunities from a proposed initiative can be realized in three months or should be allocated over 12 months. Having the right analytics can provide context in understanding what is achievable.

Sustainable. Finally, organizations should consider the long-term sustainability of any proposed initiatives. Having the right analytics provides visibility into performance measures, as well as financial and clinical outcomes, and thus helps to improve the feedback loop and align stakeholders across management levels.

Key Capabilities

Healthcare leaders want to make sure they have the appropriate staffing levels at all times to care for patients while also being mindful of limited resources and avoiding unnecessary staff duplication or wasteful use of overtime. Managing to staffing targets is an increasingly vital function.

Many hospitals struggle to deliver meaningful productivity analytics to the department-level managers responsible for staffing decisions. Establishing proper management and executive buy-in for resulting calculations is a common challenge. Healthcare leaders should use workload drivers that aptly reflect changes in labor demand as well as efficiency benchmarks that are achievable and provide "apple-to-apple" comparisons for a given care setting.

The following are descriptions of four capabilities for delivering effective productivity reporting and labor analytics.

Develop accurate workload driver computations. Involving department managers in the development of workload calculations helps ensure accuracy and establish buy-in. Having a centralized labor cost modeling system allows managers to access and review charge item-level drivers and make needed updates. For example, nursing departments may expand which activities are tracked to more accurately reflect labor demands associated with patient care by day or by shift. Storing workload calculations allows for comparisons over time and accommodates adjustments for improved processes.

Incorporate fixed and variable productivity targets. Not all FTEs are equal. With nursing staff, for example, it is important to account for salary differentials paid for nights, evenings, and weekends. Productivity targets should incorporate labor assumptions for staff on variable and fixed schedules. This helps tie reports back to total staffing numbers and budget assumptions. Healthcare leaders can adjust targets over time to align with internal or industry benchmarks.

Correlate additional analytics on reports. Healthcare leaders should consider labor productivity data within a broader context. For example, nonlabor measures related to care quality and patient safety—such as low patient satisfaction scores or patient falls—are an important part of the overall analysis. Having the most complete picture helps in assessing whether efforts to maximize staffing efficiencies negatively impact other areas related to operational risks, care quality, or patient satisfaction.

Enable a management feedback loop. A solid reporting strategy considers quality of analytics over quantity. Labor productivity reports to management should be more than just a one-directional data dump. In addition to "what," they should address "why" by highlighting key variances in the data, explaining those variances, and summarizing corrective action plans, as needed.

An Unending Priority

The need to control healthcare labor costs is not new. Like businesses in other industries, hospitals and health systems have long wrestled with questions of proper staffing and workforce productivity. The shift of the nation's healthcare system to a value-based model, however, is accelerating the need for effective labor costing solutions.

Healthcare leaders should make improved staffing and productivity cost drivers an ongoing focus for their organizations. These initiatives should be approached with a long-range view and routinely reviewed to identify opportunities for improvement. +

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